March 21, 2006

Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Attention: Ms. Jennifer J. Johnson, Secretary

Sent by E-mail to: regs.comment@federalreserve.gov

Re: Docket No. OP-1248

Dear Ms. Johnson:

I appreciate the opportunity to submit some comments on the proposed interagency guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices", issued on January 13, 2006, by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (collectively, the "Agencies"). I am writing to you as the Chief Executive Officer of a $425 million community bank located in northern Illinois, approximately 50 miles northwest of Chicago.

Our executive management and board of directors share a serious concern that the measures proposed in this FIL are excessive. Having been in the banking industry for many years, I have experienced a number of commercial real estate cycles and economic downturns and I believe banks today are better positioned and perform materially improved underwriting of commercial real estate loans as a result. There will always be a relatively small group of banks who ignore prudent lending practices and interject undo risk in their portfolios. These situations should be addressed by regulators on an individual basis during the normal examination process as opposed to the sweeping changes in both risk management and capital levels that are proposed.

The analysis of commercial real estate loan portfolios under the proposed interagency guidance is inappropriate in that loans representing different types of credit risk are accorded the same treatment and regulators are given too much discretion in labeling a bank's commercial real estate loan portfolio a "concentration".

Regardless of the varying levels of credit risk represented by individual loans, the proposed guidance would require their aggregation and the resulting non-risk-weighted sum would determine the need for additional scrutiny of a bank's entire commercial real estate loan portfolio. Also, the idea that the regulators may apply the proposed guidance "on a case by case basis to any institution that has had a sharp increase in commercial real estate lending over a short period of time or has had a significant concentration in commercial real estate loans secured by a particular property type" does not define "sharp increase" or "short period of time" and "significant concentration". This leaves far too much to chance interpretation that would indiscriminately require banks to comply with the new and costly risk management guidelines outlined in the proposed guidelines.

I agree that some of the proposed guidance provides helpful clarification of existing regulations and real estate lending guidelines for those banks that have been determined to have commercial real estate loan concentrations. However, this proposal goes far beyond existing guidelines when it calls for increased levels of regulatory capital as well as its introduction of new commercial loan monitoring techniques requiring the creation of a "management information system" and "portfolio stress testing". Absent an explanation as to how the regulators intend to correct the "minimum levels of regulatory capital" that "do not provide institutions with a sufficient buffer to absorb unexpected losses arising from loan concentrations" banks have no idea of the impact of this proposal on their regulatory capital. This alone could have a devastating impact on the ability and willingness of banks to originate commercial real estate loans.

It would appear that the risk management, stress testing and increased capital levels discussed in this proposal are more remedial in nature and should be reserved for those banks that require these kinds of increased scrutiny and security to shore up the safety and soundness of their commercial lending programs. However, the imposition of such extensive information gathering, analysis and reporting requirements on all banks, regardless of whether or not their commercial real estate lending activities warrant such concerns, is inappropriate and burdensome and could have a material negative impact on commercial real estate lending by community banks.

Our bank has taken a conservative and very selective posture in our commercial real estate lending activities and we believe the quality of our portfolio is indicative of these efforts. We believe the content of this interagency guideline is unwarranted and would have a devastating impact on our bank and many other community banks. We therefore stand in strong opposition to this proposed guideline. We appreciate your consideration of our comments.

Very truly yours,

Charie A. Zanck
Chief Executive Officer